An evolving EU engaging a changing Mediterranean region

Jean Monnet Occasional Paper No. 14/2016

Governance in the EU Member States – Evidence from Three Global Indicators

by Professor Lino Briguglio (University of Malta)

Lifelong Learning Programme

With the support of the Life Long Learning Programme of the European Union

UNIVERSITY OF MALTA
L-Università ta' Malta

Institute for European Studies

ISSN **2307-3950**

Publisher: **Institute for European Studies**, Msida, Malta.

The Institute for European Studies

The Institute for European Studies is a multi-disciplinary teaching and research Institute of the University of Malta offering courses in European Studies which fully conform to the Bologna guidelines, including an evening diploma, Bachelor degrees, a Masters and Ph.D. The Institute also operates a number of Erasmus agreements for staff and student exchanges. Founded in 1991 as the European Documentation and Research Centre (EDRC) it acquired the status of a Jean Monnet Centre of Excellence in 2004. The Institute has also developed links with various research networks such as the Trans European Policy Studies Association (TEPSA), LISBOAN, two Euro-Mediterranean networks EUROMESCO (the Euro-Mediterranean Study Commission) and FEMISE (*Forum Euroméditerranéen des Instituts de Sciences* Économiques) as well as the European Association of Development Institutes (EADI).

The research interests of its staff include comparative politics and history of the European Union (EU); EU institutions; EU external relations and enlargement; small states in the EU; Malta in the EU; Euro-Mediterranean Relations; Stability and Growth Pact; Economic Governance of the Euro Area; Europe 2020; EU development policies and Climate Change.

Contact Details

Jean Monnet Chair website: http://www.um.edu.mt/europeanstudies/jmceu-med/
Institute for European Studies website: http://www.um.edu.mt/europeanstudies
Tel: +356 2340 2001 / 2998
Address: Institute for European Studies, University of Malta, Tal-Qroqq, Msida MSD2080, Malta.

Submission of Papers
Papers are to be submitted to **roderick.pace@um.edu.mt.** They are not to exceed 6,000 words including footnotes and excluding the bibliography.

Citation
Lino Briguglio (2016). 'Governance in the EU Member States – Evidence from Three Global Indicators.' *Jean Monnet Occasional Papers*, No.14, Institute for European Studies (Malta).

About the author

Professor Lino Briguglio is the Director of the Islands and Small States Institute of the University of Malta. He was formerly Head of the Economics Department and of the Banking and Finance Department of the University of Malta, as well as Director of the University Gozo Campus. For a time he was also the Chief Executive Officer of the Foundation for International Studies of the University of Malta. He is known internationally for his seminal work on the "Vulnerability Index" which was published in *World Development* in 1995 and this led to a world-wide interest and to many quantitative studies on economic vulnerability. He has also pioneered work on the measurement of economic resilience, in a paper published in Oxford Development Studies in 2009. He has acted as consultant to various international organisations, including the Commonwealth Secretariat.

Abstract

This paper assesses governance in twenty-eight EU Member States (EUMS) by comparing these states among themselves and with the rest of the world, utilising three indicators relating to political, economic and social governance. The main contributions of this paper on the issue of governance are three. First the paper includes economic and social governance in the meaning of the term "governance". Studies on governance generally use indicators associated with politics and public administration. Secondly, it attempts to place the governance scores of the EU Member states, as a block, in an international context. Thirdly, the study tries to explain why GDP growth and governance indicators are often found to be negatively correlated.

Keywords:

Governance, European Union, Economic Growth, Corruption, Institutions

Contents

Governance in the EU Member States – Evidence from Three Global Indicators

by Professor Lino Briguglio[*]

1. Introduction

This paper assesses governance in twenty-eight EU Member States (EUMS) by comparing these states among themselves and with the rest of the world, utilising three indicators relating to political, economic and social governance.

The indicators used are:

1. the Worldwide Governance Indicators to measure political governance;
2. the Macroeconomic Stability sub-index of the Economic Resilience Index to measure economic governance; and
3. the non-income component of the Human Development Index to measure social governance.

The title of the second and third indicators does not directly refer to governance, but they are strongly related to economic and social policies, which are themselves closely associated with economic and social governance.

The main contributions of this paper on the issue of governance are three. First the paper includes economic and social governance in the meaning of the term "governance". Studies on governance generally use indicators associated with politics and public administration. Secondly, it attempts to place the governance scores of the EU Member states, as a block, in an international context. Thirdly, the study tries to explain why GDP growth and governance indicators are often found to be negatively correlated.

The paper is organised in seven sections. Following this introduction, Section 2 briefly presents some background information on the EUMS, related to their population, GDP per capita and rates of economic growth. Section 3 presents a literature review focussing on matters relating to the theme of the paper. Section 4 describes the three indicators in some details, and presents the political, economic and social governance scores of the EUMS, while Section 5 compares the score of the EUMS indicators with those of other countries. Correlations between the governance scores and economic performance are discussed in Section 6. The last section summarises the main tendencies identified in the previous two sections and derives a number of implications relating to the EU Member States.

2. Background on the EU

The European Union consists of 28 deeply integrated countries, each of which has relinquished part of its sovereignty to the EU institutions. Since its creation, during the second half of the 1950s the Union evolved from a community of six countries closely cooperating in trade into an economic and political union, based on treaties leading to binding agreements between the member states.

Out of the 28 member states, only six countries, namely Germany, UK, France, Spain, Italy and Poland, can be considered as large states. The remaining 22 states are relatively small. Figure 1 shows that the majority of EUMS have a population of about 10 million or less, with Malta, Luxembourg and Cyprus having a population of less than 1 million each.

Figure 1: Population of the EU Member States

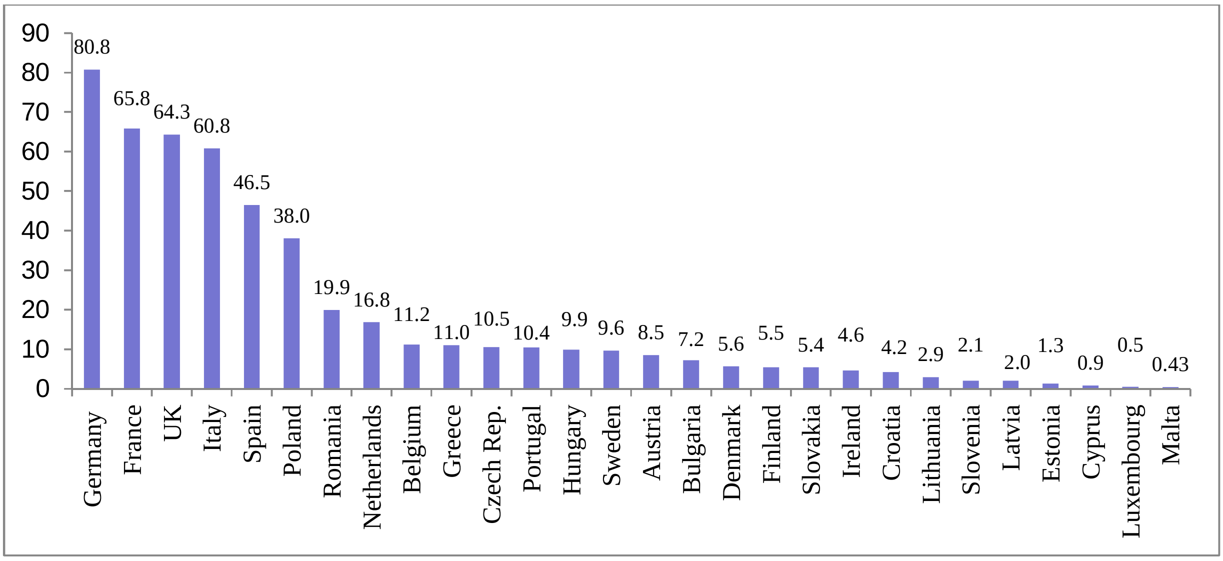


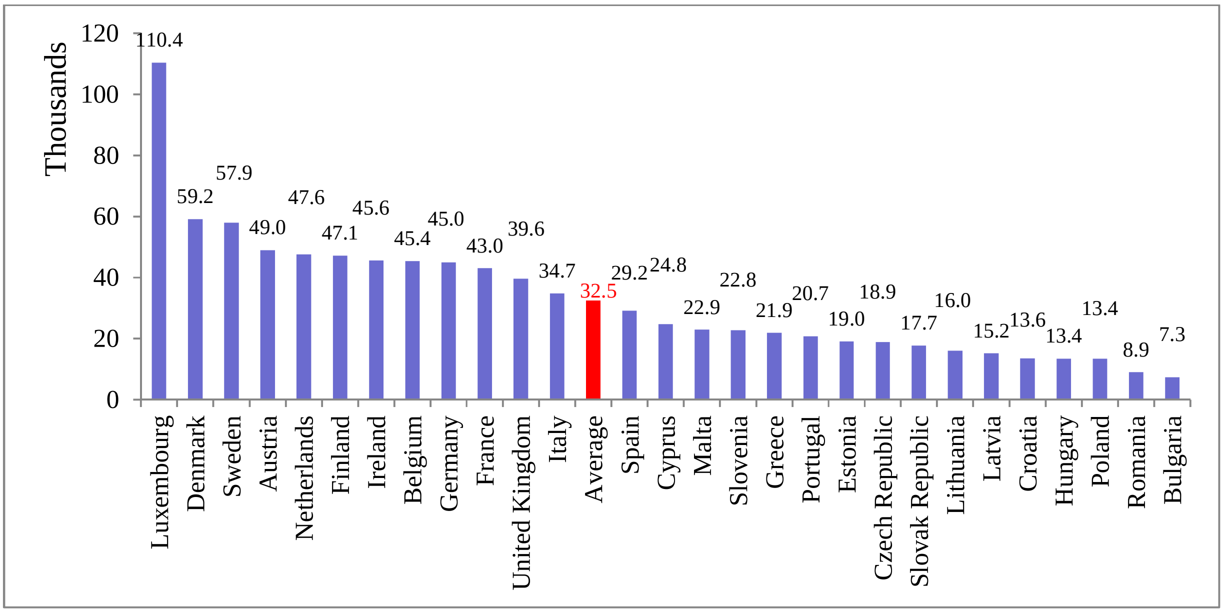
Figure 2 shows the income per capita of the EUMS. It can be seen that in 2013, the average GDP per capita was about US$32,000 with most countries generating an income per capita exceeding US$20,000. This is a relatively high income per capita, which means that most EUMS are classified as High Income Economies (HEI) by the World Bank.[1]

Figure 3 shows the average growth rates in real GDP of the EUMS between 2003 and 2013. The growth rates of almost all EUMS were on the low side, with the majority registering a rate below 1.8%, the average growth of all the EUMS taken together. The slow growth rates in the EU would seem to

[1] The exceptions are Romania and Bulgaria, which are classified as Upper Middle Income Economies.

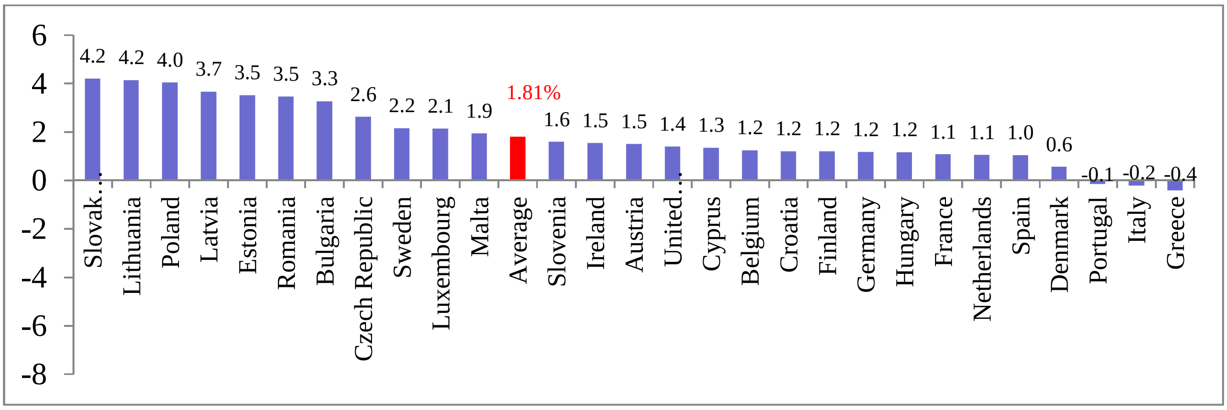
contradict the often assumed connection between economic growth and governance, given that the EU as a whole is characterised by relatively high governance scores, as we shall show below.

Figure 2: GDP Per Capita (2013, US$000) of the EU Member States



Source: IMF (2014)

Figure 3: Percentage Change in GDP (2003-2013) of the EU Member Stats



Source: IMF (2014)

3. Literature Review

3.1 The Meaning of Governance

The word Governance may refer to the administrative and decision-making processes relating to states, corporations, and other organisations, but in this study the term is used with reference to states.

Most definitions of governance of states are associated with politics and public administration, but, as Kaufman et al. (2010) argue, although the concept of governance is widely discussed among policymakers and scholars, there is as yet no strong consensus around a single definition of it or of institutional quality.

The same authors state that in specific areas of governance such as rule of law, there are extensive debates among scholars over "thin" versus "thick" definitions, where the former focus narrowly on whether existing rules and laws are enforced, while the latter emphasize more whether the content of laws leads to justice.

Khan (2007) distinguished between market-enhancing versus growth-enhancing types of governance, associating market-enhancing governance with a liberal economic stance that facilitates the operation of the market mechanism and reduces transaction costs. Khan linked the growth-enhancing form of governance with the leadership role of government aimed at overcoming market failures, promoting investment, particularly in infrastructure, in the use of resources and technological development.

Khan argued that these two forms of governance may not be mutually exclusive. In addition, Khan contends that what may be successful in one country need not be so in another, giving as an example the growth-enhancing type of government in a number of East Asian countries, though this model of governance did not work successfully in other countries.

In some strands of the literature, governance is closely associated with institutions, since these are essential for enforcing property rights and putting in place legal/administrative systems (Rodrik, 2008, Brown, 2010).

The basic argument in this context is that weak institutions may directly hamper effective economic, social and political management and, in addition, may inhibit economic growth due to various factors, including lack of investment.

Corruption features prominently in many studies on Governance. Some studies indicate that corruption is extensive in developing countries (Svensson, 2005). Corruption may be beneficial to the persons who bribe and those bribed, but it creates various economic disadvantages, including additional costs to firms and negative effects on the provision of goods and services by the government (Olken & Pande, 2011). Corruption also generates an atmosphere of uncertainty and dishonesty. Some studies (e.g., Huntington, 1968) suggest that corruption can be beneficial, when governments are autocratic and remain in power by hook or by crook. However, as Easterly (2006) argued, claims that corruption “greases the wheels” of growth simply do not stand up to empirical scrutiny.

A definition of governance, in line with the approach taken in this paper, and as proposed by the European Commission (2006), underlines the importance of defining its political, economic and social dimensions. Similarly, the World Bank’s PRSP Handbook, defines governance in terms of the manner in which “power is exercised through a country’s economic, political, and social institutions.”

3.2 Governance in the EU

The EU places good governance as one of its major objectives. It is to be based on openness, participation, accountability, effectiveness and coherence (European Commission, 2001). In practice, the quality of governance of most EU individual member states, in terms of rule of law and other democratic requisites, is among the highest in the world, as can be seen in the so-called Kaufmann Index, which is one of the indicators used in this study. However there is a major criticism relating to the EU’s supranational governance, with some authors questioning whether the EU institutions are truly democratic and transparent, in their responsiveness to citizen concerns and in their efficacy, accountability and transparency (Schmidt, 2013).

3.2.1 Political governance

Auel and Christiansen (2015), writing specifically on political governance in the EU, refer to the constraints imposed by the European Commission on National Parliaments’ ability to scrutinize new EU legislation because directives and regulations often lack clarity and tend to be highly technical.

Lindseth (2012) questions whether the EU system of government is really, ‘government of the people’ given that within the EU there is the cultural perception that the Union’s supranational institutions are not genuinely the people’s own. (On this issue see also Liebert et al., 2013 and Lindgren and Persson, 2011).

In addition, some authors (e.g. Ayers, 2008) refer to the style of EU governance, which, even while promoting the participation of Civil society, is too much oriented toward liberal market-based policies.

3.2.2 Economic governance

With respect to economic governance, the EU has put in place regulatory frameworks which encourage competition and control abuse. The Stability and Growth Pact aims at promoting growth while encouraging prudent fiscal policy. However in practice, these arrangements have not so far managed to pull the EU out of slow growth and high unemployment (European Commission, 2015a). Also, Governments have found it too easy to ignore the strictures of the Stability and Growth Pact without being punished.

Some authors consider these schemes as being too much market oriented (Lendhorf, 2015). Other authors further criticize the economic governance of the EU during the euro crises, arguing that the austerity policies imposed on countries, was authoritarian and may have threatened democracy.

The euro-crisis has also been considered as a governance crises, due to the fact that there was disagreement as to how to control financial imbalances, price and wage divergences and an insufficient focus on debt sustainability, leading to calls for more stringent control over national finances (Sapir and Wolff, 2015) .

On the other hand, Giannone, (2015) criticized the economic governance of the EU during the euro crises for imposing austerity policies on countries, calling it authoritarian and a possible threat to democracy.

3.2.3 Social governance

Social policy is one of the most important components of the EU governance framework, based on advanced social security schemes, high quality health services and rules that govern educational systems in member states (European Commission, 2015b, Anderson, K, 2015). The EU runs the European Social Fund which has had several successes in the social sphere (European Commission, 2015c).

Although the individual EUMS have adopted different social models, namely Nordic, Anglo-Saxon, Mediterranean and Continental (Sapir, 2005), they share major characteristics, including the promotion of employment, improved living and working conditions, social protection and dialogue between management and labour.

Several weaknesses have been identified in the EU social model. An argument that is often put forward with regard to the EU social policy is that it is overdeveloped and may be leading to rigidities in the labour market and the discouragement of effort (Flynn, 1998).

An opposite argument, advanced by some authors (e.g. Mabille, 2012; Vaughan-Whitehead, 2014) is that the EU Institutions are abandoning the European social model and seeking neoliberal solutions, leading to excessive austerity and unemployment and threats to social welfare spending.

Some authors identify various contradictions between the EU social governance and its economic governance. By way of example, Rubery et al. (2008) refer to competition policy as posing significant challenges to national employment and social models, with significant consequences relating to the organisation of employment and the maintenance of labour standards. Heins and de la Porte (2014), referring to the EU Commission's emphasis on fiscal consolidation, state that this has led to increased involvement in and constraints on national budgets, of which welfare state spending is an important component.

3.3 The Relationship between Governance and Economic Performance

3.3.1 Governance and GDP Per Capita

The relationship between good governance indicators and the GDP per capita of countries, is generally found to be positive with a high degree of correlation between the two variables, as confirmed in the present study. This relationship is also found in more rigorous and complicated studies on this issue, notably in Kaufman and Kraay (2002).[2]

There is however some debate about the direction of causality. Kaufman and Kraay (2002) show that per capita income and the quality of governance are strongly positively correlated across countries. They find a strong positive causal effect running from better governance to higher per capita income, and a weak and even negative causal effect running in the opposite direction from per capita income to governance.

3.3.2 Governance and Real GDP Growth

This study presents simple correlation coefficients between governance indictors and economic growth, which generally indicate that the relationship is not positive, but possibly negative. This is in line with neoclassical growth theory which predicts that lower income countries should converge, since theoretically they should tend to grow at a faster rate than higher income ones due to the law of diminishing marginal product with regard to capital, which is more abundant in developed countries. This neo-classical convergence theory associated with Solow (1956) and Cass (1965), leads to the argument that a country's growth rate tends to be inversely related to its starting level of income per capita.

Intuitively, one should think that economically backward countries can grow faster than advanced countries also because the former countries can copy and adopt readily available technologies invented by countries that developed before them. This catching-up by technological laggards has been termed the "advantage of backwardness" by Gerschenkron (1952).

In spite of this, several publications associate good governance, and the necessary institutions for this, with growth. A substantial body of literature considers good governance as a precondition for growth (Kaufmann, 2005; Rivera-Batiz, 2002) and similarly with regard to governance institutions (Acemoglu et al., 2005; North; 1990; Aron, 2000; Commission on Growth and Development, 2008).

[2] See Baland et al. (2009) for a discussion on this relationship.

Quantitative studies on the relationship between governance and economic growth, using a cross-section of countries, employ somewhat complicated model specifications (see for example Fayissa and Nsiah, 2010; Riviera-Batiz, 2002), and the results tend to be difficult to interpret (Kurts and Schrank (2007).

The direction of causation of economic growth and governance is also a matter of debate, with some authors arguing in favour of the theory that growth comes first, and governance and the accompanying institutions later (e.g. Durlauf et al., 2005; Glaeser et al., 2004).

The relationship between economic growth and governance has been questioned by Kurtz and Schrank (2007) who doubt whether such a connection exists and who further question whether the data used to measure governance as well as the methods used to estimate such a relationships are good enough.[3]

Rodrik (2008) argues that there are many countries that are growing rapidly despite poor governance to render suspect any general claim to the contrary and governance is generally not a prerequisite for getting growth going. Rodrik also opines that as a rule, broad governance reform is neither necessary nor sufficient for growth, and therefore a broad governance agenda rarely deserves priority as part of a growth strategy, except in rare instances where "weak governance is specifically identified as a generic area of binding constraints".

The literature on the effect of good governance on economic growth, at best, therefore, sends contradictory signals, with some authors, notably Kaufman and Kraay (2002) arguing strongly in favour of the connection and others, such as Rodrik (2008) and Kurts and Schrank (2007) arguing that there is no reliable evidence that such a connection exists.

4. The Indicators Used to Measure Governance

This section describes the three indicators used in this study, which respectively relate to political, economic and social governance namely (a) the Worldwide Governance Indicators; (b) Macroeconomic stability index of the Resilience Index and (c) the non-income components of the Human Development Index.

4.1 The Worldwide Governance Indicators

The Worldwide Governance Indicators (WGI)[4] have six dimensions namely (1) voice and accountability (2) political stability and absence of violence (3) government effectiveness (4) regulatory quality (5) rule of law and (6) control of corruption. The scores assigned to each country range from approximately -2.5

[3] See also Sundaram and Chowdhury (2012) for studies that question the governance and growth connection.
[4] The most recent (2013) WGI scores are available at: http://info.worldbank.org/governance/wgi/index.aspx#home . The indicators are based on the views of persons involved in business, ordinary citizens and expert surveys, with sources derived from various institutes, think tanks, non-governmental organizations, international organizations, and private sector firms.

to 2.5, with higher values corresponding to better governance. A detailed description of the methodology is given in Kaufmann et al. (2010). A simple average of the six dimensions for 2013 was computed for the purpose of this study.

The data for the WGI was re-scaled using the so-called Max-Min formula which transforms the original scores into a range from 0 to 1. This was done to enable aggregation of the WGI scores with those of the other two governance indicators, since the three indicators are measured along different scales.

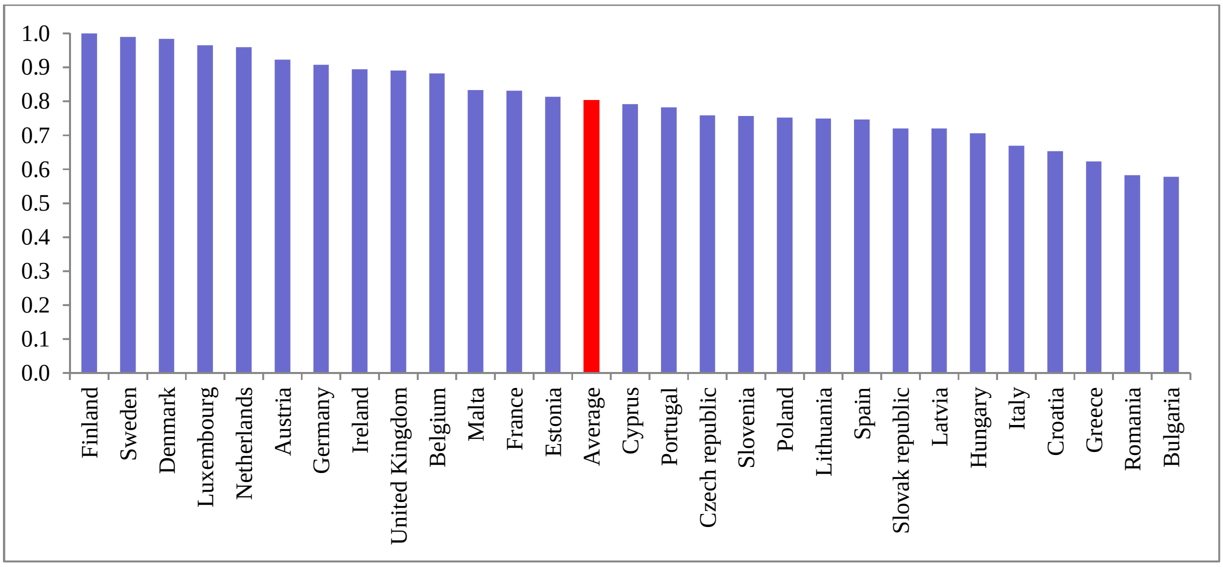
The Min-Max formula can be expressed as:

$$\mathbf{S^{RS}_i = (S_i - S_{min}) / (S_{max} - S_{min}) \qquad i = 1,2,3,\ldots,183}$$

Where $\mathbf{S^{RS}i}$ is the re-scaled score in a governance index, for country i, in an array of 183 observations; S_i is the actual score of country i in the same array**;** $\mathbf{S_{min}}$ is the minimum score in the same array of observations; and $\mathbf{S_{max}}$ is the maximum score in the same array.

The data for the WGI scores, pertaining to the EUMS, is shown graphically in Figure 4. It can be seen that Finland and Sweden are the best politically-governed EUMS whereas Romania and Bulgaria are the worst, according to the WGI. It should also be noted that even the lowest score in the EU is still relatively high by international standards, as we shall show below.

Figure 4: The EUMS WGI Scores

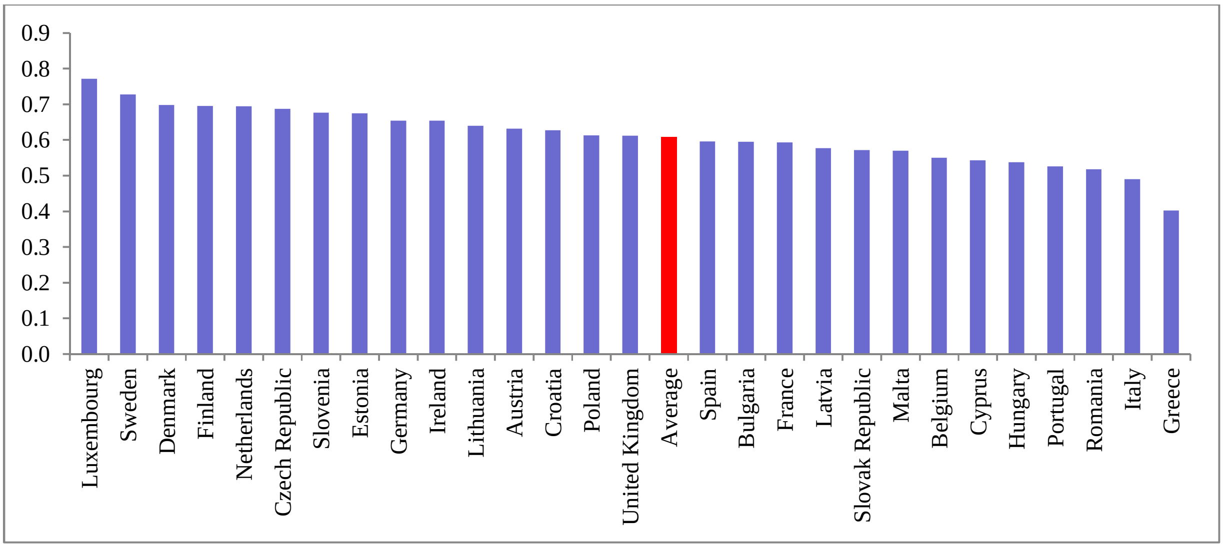


4.2 Macroeconomic stability component of the Economic Resilience Index

The Macroeconomic stability component of the Economic Resilience Index (STB), which was developed by Briguglio et al. (2009) and was recently updated by Briguglio (2014), contains three sub-indices, namely (a) inflation (measured by the GDP deflator)[5], (b) debt as a ratio of GDP and (c) current account imbalances as a ration of GDP. These indicators were chosen because they were thought to be policy induced and thus closely related to economic governance. In addition, these three variables are available for almost all the countries of the World. A detailed description of the method used to construct the STB is given in Briguglio (2014). All observations were again rescaled using the Max-Min formula, so as to enable aggregation of variables measured in different scales. The data was sourced from the IMF World Economic Outlook database[6] and the three sub-indices were averaged using equal weights.

The data for the STB scores pertaining to the EUMS is shown graphically as Figure 5. It can be seen that Luxembourg and Sweden are the best economically-governed member states whereas Italy and Greece are the worst.

Figure 5: The EUMS STB Scores



[5] The GDP deflator rather than the Retail Price Index was chosen as an indicator of inflation so as to exclude imported inflation, which is not likely to be policy induced.

[6] The database is available at: http://www.imf.org/external/pubs/ft/weo/2014/02/weodata/index.aspx .

4.3 Non-Income components of the Human Development Index

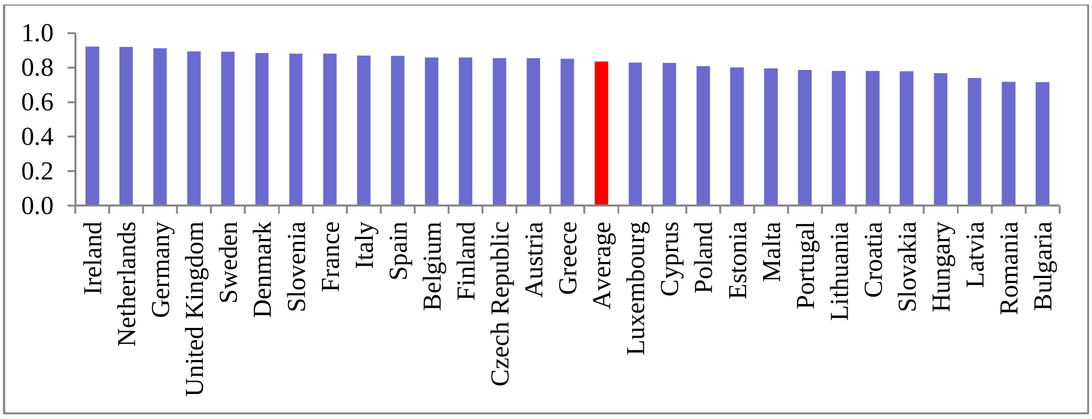
The Human Development Index (HDI)[7] measures the average achievements in a country in three basic dimensions of human development, namely health (measured by life expectancy), education (measured by the average years of schooling and expected years of schooling)[8] and the standard of living, measured by the log of GNI per capita (PPP $). The HDI is an average of the three dimensions. A description of the methodology is available in Klugman et al. (2011).

The Non-income HDI (NYH), used in the study, consists of two of the three HDI components namely (a) the health and (b) the education components. These two components are thought to be policy induced and closely related to social governance.

The NYH was measured by assigning a weight of 50% to the health component and 25% to each of the educational components (the same procedure used by the HDI compilers), and the result was again rescaled using the Min-Max formula so that the values of the NYH index ranged between 0 and 1.

Figure 6, graphically shows the data for the NYH scores pertaining to the EUMS. The index shows that Ireland and the Netherlands are the best socially governed member states whereas Romania and Bulgaria are the worst.

Figure 6: EUMS NYH Scores



4.3 The Average of the Three Indicators

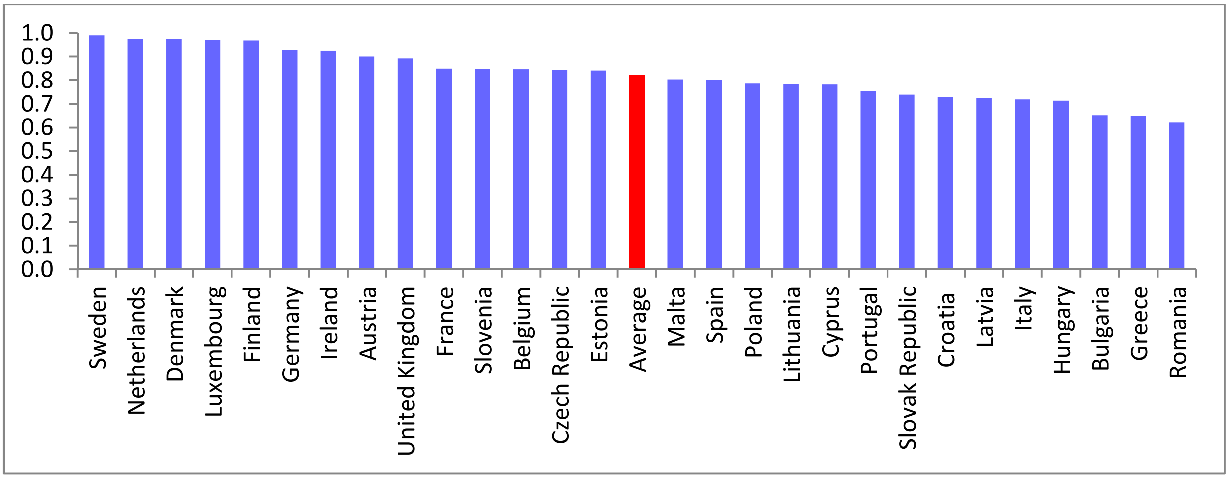
The three indicators, respectively relating to political, economic and social governance, were averaged. The results for the EUMS are shown graphically in Figure 7. This figure shows that the best-governed member states were Sweden and the Netherlands, whereas Romania and Bulgaria are the worst, in terms of the average of the political, economic and social governance indicators.

[7] The data for this study was sourced from the 2014 HDI, available at http://hdr.undp.org/en/data .

[8] Mean of years of schooling for adults aged 25 years and expected years of schooling for children of school entering age.

In general, it emerges that the Northern and Western EUMS tend to be better governed than the Easter and Southern EUMS. There are however some exceptions, particularly Spain, Italy and Malta, which register a below average governance score and they are counted among the western countries.

Figure 8: EUMS AVG Scores



5. The EUMS Scores Compared with the Rest of the World

5.1 Political governance scores compared

As already explained, the index used in this study to measure political governance is the Worldwide Governance Indicators (WGI), which, it should be recalled were rescaled in a range of values from 0 to 1.

It can be seen from Table 1 that the average political governance score for the EU exceeds the average for high-income countries.[9] In addition, it can be seen from Table 2 that that the five best politically-governed EUMS register relatively high scores, when compared to the five most-economically-advanced non-EU countries, with the highest scores pertaining to Finland, Sweden and Denmark in that order.

[9] The income classification is that used by the World Bank. The classification is available at: http://data.worldbank.org/news/2015-country-classifications

Table 1: EUMS WGI Scores Compared with Other Country Groups

Countries	WGI Scores
Average (EUMS)	0.802
Average Eurozone	0.819
Average: all countries	0.459
High-income-countries' average	0.744
Upper-middle-income countries' average	0.423
Lower-middle-income countries' average	0.334
Low-income countries' average	0.219

Table 2: High EUMS WGI scores compared with other Highly-Advanced Countries

Country	WGI Scores
Finland	1.000
Sweden	0.989
Denmark	0.984
Luxembourg	0.965
Netherlands	0.960
Australia	0.931
Canada	0.939
Japan	0.867
New Zealand	0.990
United States	0.844

5.2 Economic Governance Scores Compared

Economic governance is measured by the macroeconomic stability component of the Economic Resilience Index (STB). It can be seen from Table 3 that economic governance in the EU is slightly lower than the average for all high-income countries, but higher than other country groups.

In addition, it can be seen from Table 4 that the five best economically governed EUMS, register relatively high scores, comparable to the five most-economically-advanced non-EU countries, with the highest scores pertaining to Luxembourg, Sweden and Denmark in that order.

Table 3: EUMS STB Scores Compared with Other Country Groups

Global Comparisons	STB Scores
Average (EUMS)	0.608
Average Eurozone	0.606
Average: all countries	0.540
High-income-countries' average	0.629
Upper-middle-income countries' average	0.529
Lower-middle-income countries' average	0.509
Low-income countries’ average	0.451

Table 4: High EUMS STB scores compared with other Highly-Advanced Countries

Country	STB Scores
Luxembourg	0.772
Sweden	0.727
Denmark	0.698
Finland	0.695
Netherlands	0.695
Australia	0.680
Canada	0.576
Japan	0.361
New Zealand	0.664
United States	0.544

5.3 Social governance scores compared

As explained above, social governance is measured in this study by the non-income components of the Human Development Index (HDI). It can be seen from Table 5 that social governance in the EU is higher than the average for high-income countries.

In addition, Table 6 shows that the best five socially-governed EUMS register relatively high scores, comparable to those of the 5 highly-advanced non-EU countries, with Ireland, the Netherlands and Germany registering the highest social-governance scores. However, worldwide, Australia had the highest score in this regard.

Table 5: EUMS NYH scores compared with Other Country Groups

Global Comparisons	NYH Scores
Average (EUMS)	0.833
Average Eurozone	0.843
Average: all countries	0.578
High-income-countries' average	0.809
Upper-middle-income countries' average	0.639
Lower-middle-income countries' average	0.464
Low-income countries' average	0.257

Table 6: High EUMS NYH scores compared with other Highly-Advanced Countries

Country	NYH Scores
Ireland	0.922
Netherlands	0.921
Germany	0.912
United Kingdom	0.893
Denmark	0.885
Australia	1.000
Canada	0.903
Japan	0.904
New Zealand	0.963
United States	0.889

5.4 Average Scores of the Three Indicators Compared

As already explained, the three indicators respectively relating to political, economic and social governance were averaged and rescaled to render them suitable for taking their average. The results are shown in Tables 7 and 8.

Table 7 shows that the average score for the EU member states is higher than that of high income countries, while Table 8 shows that the five top EUMS have relatively high scores when compared with 5 highly-advanced non-EU member states.

In the EU Sweden, Netherlands, Denmark, Luxembourg and Finland are the best performers, whereas the worst five performers are Italy, Hungary, Bulgaria, Greece and Rumania.

Table 7: EUMS AVG Scores Compared with Other Country Groups

Global Comparisons	AVG Scores
Average (EU)	0.822
Average Eurozone	0.846
Average: all countries	0.544
High-income-countries' average	0.698
Upper-middle-income countries' average	0.549
Lower-middle-income countries' average	0.427
Low-income countries’ average	0.263

Table 8: High EUMS AVG scores compared with other Highly-Advanced Countries

Country	AVG Scores
Sweden	0.991
Netherlands	0.975
Denmark	0.973
Luxembourg	0.971
Finland	0.968
Australia	0.988
Canada	0.905
Japan	0.776
New Zealand	0.995
United States	0.838

5.5 Tendencies that emerge by comparing the EUMS in a global context

Tables 4 to 8 indicate that in general the governance scores of the EUMS are comparable with those of the best governed and the most developed countries in the world. Although there is a spread of governance performance within the EU itself, with the northern and western countries tending to register higher scores than the southern and eastern countries, the average governance score for the EU still remains a relatively high score, particularly with regard to political and social governance.

In the case of economic governance, which was based on economic stability (Tables 3 and 4), the EUMS scores were not as high as the political and social governance scores, due to the economic instability that the EU passed through, as evidenced by the high debt ratios of a number of EU member states. However, by international comparisons, the average economic governance scores of the EUMS were still relatively high in a global context, as many non-EU countries registered relatively lower scores, when compared to political and social governance, reflecting the global economic instability after 2007.

6. Governance Scores and Economic Performance

As has been shown above, the governance scores of the EUMS are generally high, when compared to other countries. The EUMS generate relatively high GDP per capita indicating that governance and per capita income tend to be correlated, as we shall show below. However, the EUMS are not characterized by high growth rates, suggesting that governance and GDP growth rates are negatively correlated. This issue will be discussed further below.

6.1 Relationship with GDP Per Capita[10]

It is interesting to test whether the GDP per capita of the EUMS, as a block, are compatible with their governance scores. This is done in the present study by (a) correlating the governance scores of the EUMS with their respective per capita income and (b) correlating the scores of 183 countries with their GDP per capita. The results of the correlation exercise are shown in Table 9.

Table 9: Correlation between the Governance Scores and GDP per Capita

Variable	Correlation with WGI	Correlation with STB	Correlations with NYH	Correlations with AVG
Within the EU	0.86*	0.48*	0.78*	0.85*
Worldwide	0.78*	0.47*	0.86*	0.87*

* Indicates that the relation between the governance scores and GDP per capita is different from zero at the 95% level of statistical significance.

It can be seen from Table 9 that there is a positive correlation between the Governance scores and GDP per capita, within the EU and Globally.[11] These results reflect the tendency, identified in many studies, that the more developed countries enjoy better political, economic and social governance.

[10] Data for GDP per capita and for economic growth were sourced from the IMF's World Economic Outlook database available at: http://www.imf.org/external/pubs/ft/weo/2014/01/weodata/index.aspx .

[11] The t-statistic relates to the coefficient on the governance indices. The asterisk on the correlation coefficient indicates that it is different from zero at the 95% level of statistical significance. It should be noted that the simple correlation exercises presented in this study do not capture variables, other than governance, that may affect GDP per capita. It is therefore being emphasized that the purpose of the exercise is not to identify the factors that lead to high GDP per capita, but to simply check whether high income countries tend to be characterized by high governance scores and vice-versa.

The relationship between the governance scores, on the vertical axis, and GDP per capita on the horizontal axis,[12] is also shown graphically in Figure 9. The data covers the EUMS as a block (indicated by a large marker) and 155 countries (that is 183 countries for which data was available less 28 EUMS). The figure consists of four panels, the first three referring to the three indicators of governance and the fourth to the average of these three indicators.

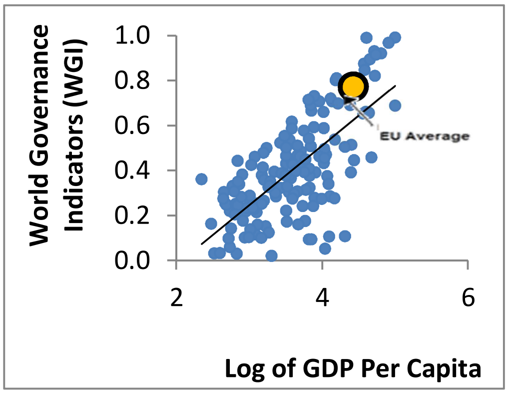
The four diagrams confirm that:

- in terms of political and social governance, the EU average is above the average of those countries with comparable GDP per capita, as shown by the large marker above the trend line;
- in terms of economic governance the EU average is on the trend line;
- the average of the three scores is also above the trend line.

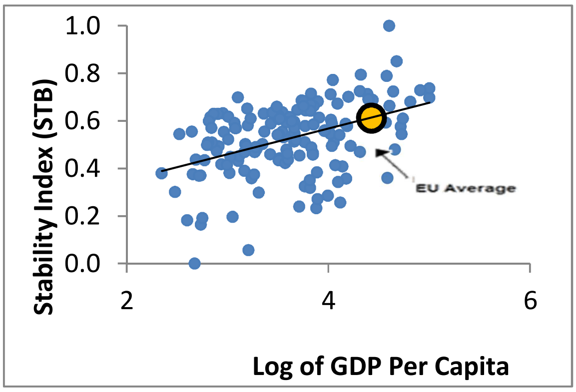
This means that the EUMS, considered as a block, attained higher political governance scores than their income comparators, although they did not excel in economic governance.

Figure 9: The relationship between the Governance scores and GDP per capita

WGI and GDP Per Capita



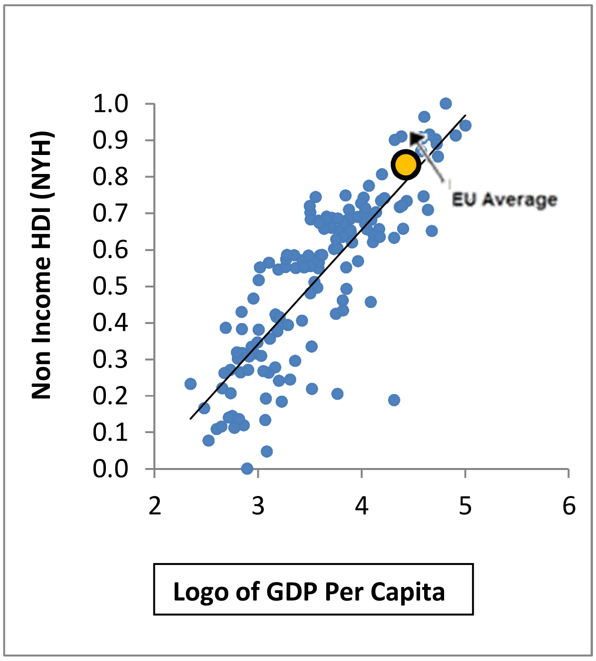
STB and GDP Per Capita

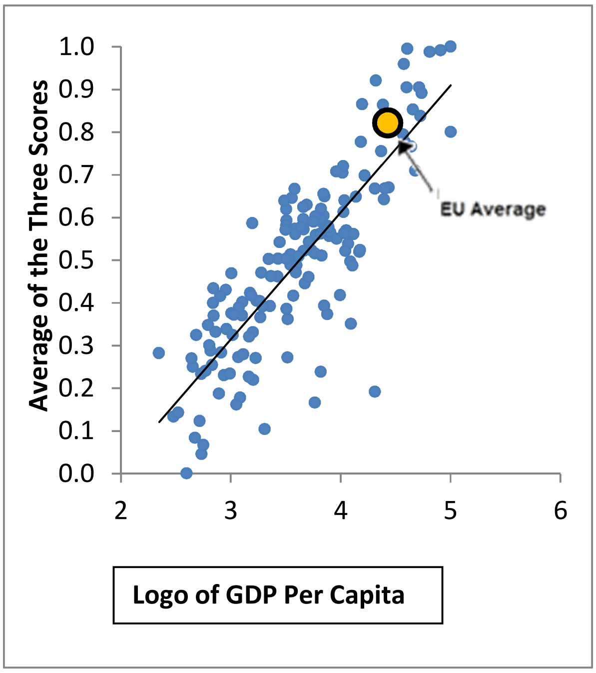


NYH and GDP Per Capita

AVG and GDP Per Capita

[12] GDP per capita is measured in logs so as to reduce the spread of the horizontal axis. In addition, an inspection of the data showed clearly the relationship was non-linear as follows and the best fit was Y=A + log(X):





6.2 Relationship with GDP Growth

It is also interesting to test whether the real GDP growth rates are in line with their governance scores. This is done in the present study by (a) correlating the governance scores of the EUMS with their respective growth rates and (b) correlating the scores of 183 countries with their respective growth rates.[13] The results of the correlation exercises are shown in Table 10. GDP growth is measured over the period (2003-2013). Growth rates for other time-periods were also correlated with the governance scores and the overall results were similar to the ones reported in Table 10

It can be seen that all three scores are negatively correlated with economic growth when 183 countries are considered, although the STB indicator exhibited a very low correlation coefficient. In the case of the EU, there is also a tendency for WGI and NYH to be negatively correlated with economic growth. What can be concluded from these results is that there is no indication that governance is positively correlated with growth rates.

[13] It is being emphasized again that the correlation exercises presented in this study do not capture variables, other than governance, that may affect economic growth. The purpose of the exercise is not to identify the factors that lead to economic growth, as done in Durlauf et al. (2005) and Kurts and Schrank (2007), but to simply check whether fast growing countries are characterized by high governance scores and vice-versa.

Table 10: Correlations between Governance Scores and Real GDP Growth Rates (2003-13)

Variable	Correlations with WGI	Correlations with STB	Correlations with NYH	Correlations with AVG
EU	-0.20^{n}	0.25^{n}	-0.55*	-0.17^{n}
Global	-0.45*	-0.07 ^{n}	-0.21*	-0.33*

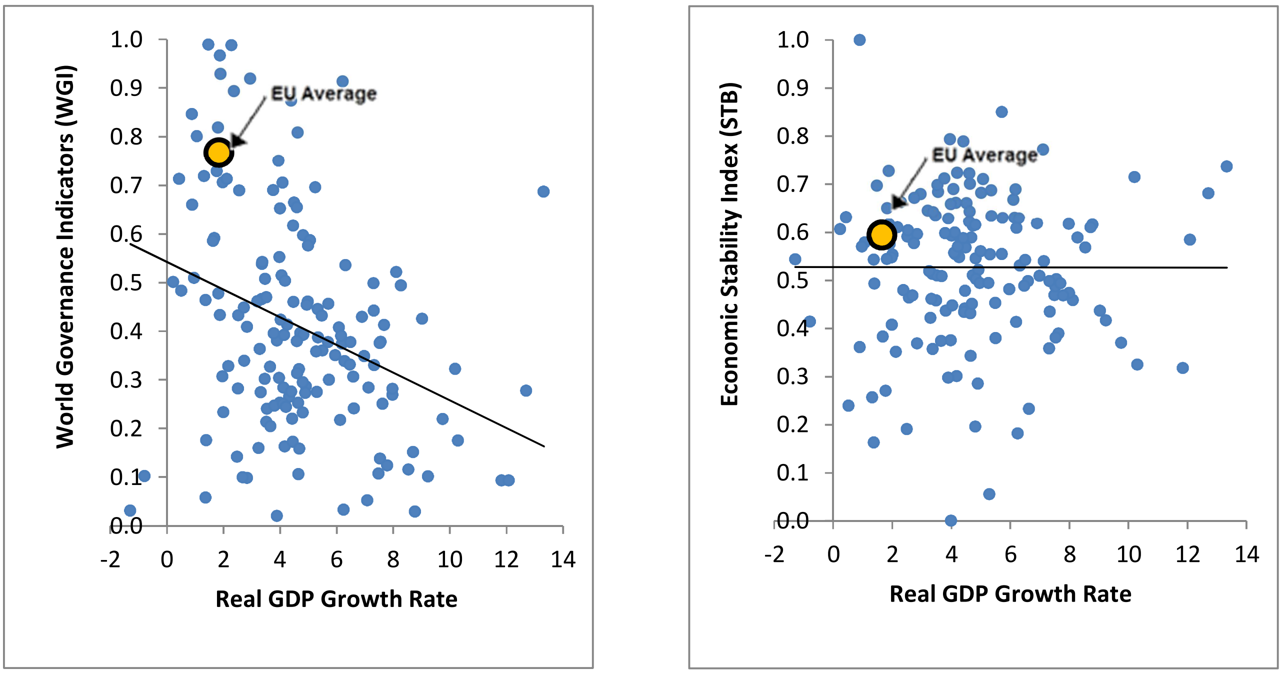
* Indicates that the relation between the governance scores and GDP growth rates is different from zero at the 95% level of statistical significance.

The relationship between the governance scores, on the vertical axis, and real GDP growth rates on the horizontal axis, is also shown graphically in Figure 10, which again shows the scores of 155 countries, that is 183 countries less 28 EUMS. The EUMS are represented by their average score, (indicated by a larger marker). The figure consists of four panels, the first three referring to the three indicators of governance and the fourth to the average of these three indicators.

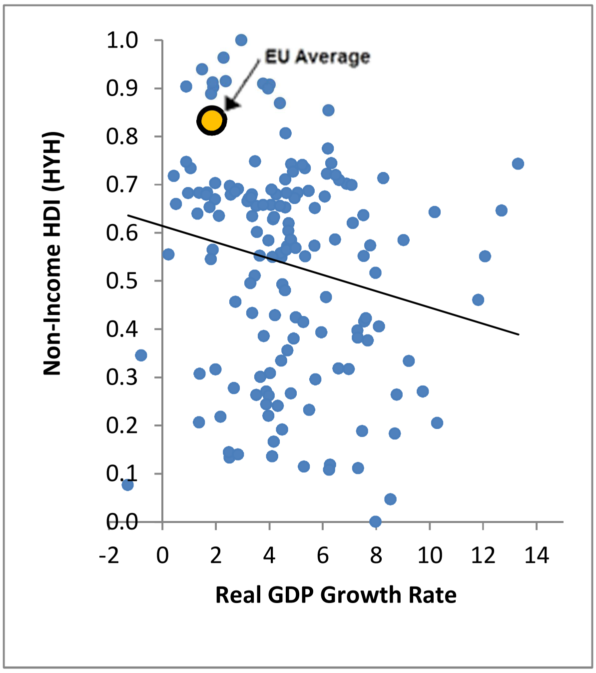
Figure 10: The relationship between the Governance scores and GDP Growth Rates

WGI and Real GDP Growth Rate

STB and Real GDP Growth Rate



NYH and Real GDP Growth Rate



AVG and Real GDP Growth Rate

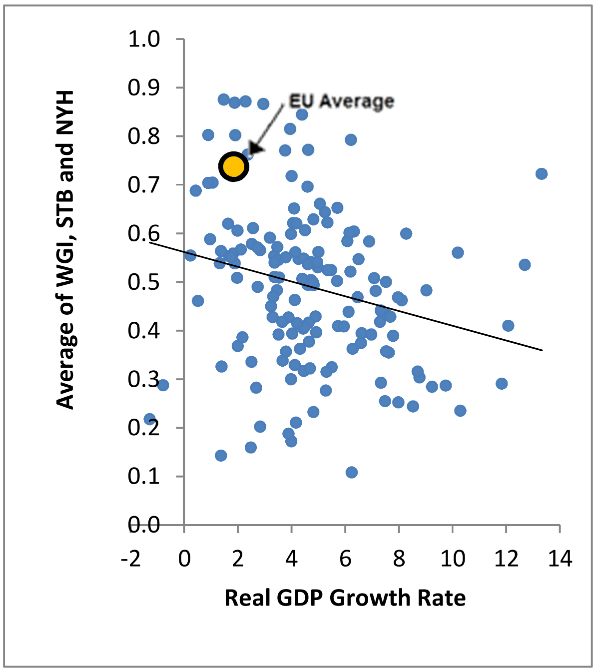


Figure 10 shows that the EUMS, as a block, are characterized by relatively low growth rates, averaging 1.84%, but at the same time, their governance scores are well above their growth comparators, as indicated by the marker representing the EUMS, located well above the trend line. This would seem to confirm that good governance need not be associated with high growth rates.

7. Implications of the results

7.1 Governance Scores in the EUMS

The results first and foremost indicate that the governance scores in the EU are high by international standard, even when averaging out the EU front-runners with the EU laggards. The results also indicate that the rate of growth in the EU was relatively low by international standards, promoting the question as to whether or not good governance leads to economic growth.

7.2 Good Governance and Prosperity

The indicators presented above, show that desirable governance scores, be they political, economic or social, are correlated with GDP per capita. This would seem to suggest that good governance is associated with economic prosperity. This conclusion, also often found in the literature, supports intuitive thinking, given that good governance is likely to mean responsive administration, better institutional set-ups and more efficient utilisation of resources.

However the direction of causality of this connection has been questioned, as indicated in the literature section, given that it is possible that economic development comes first and this enables the country to better afford governance institutions, and not vice-versa. Another possibility is that they are simultaneously determined.

7.3 Good Governance and Growth

The political and social governance indicators considered in this study do not seem to be positively correlated with economic growth – on the contrary there seems to be a negative correlation between these two variables.

In the case of the EUMS, some countries which received relatively low governance scores are the fastest growing economies among the EUMS. Conversely some of the slowest growing EUMS registered relatively low governance scores. This would seem to contradict a commonly held view that growth and good governance go hand-in-hand.

One can argue that this is because the relationship between governance and real GDP growth is likely to be between changes (and not levels) in the governance variables, since what matters are improvements in this regard. The reason for this is that Governance improvements may be easier to achieve from a relatively low starting point. In other words, it may be more difficult to improve governance once a country reaches or almost reaches a peak when compared to a country which has considerable room for improvement – an assumption which Briguglio (2015) has termed "diminishing marginal governance effect".[14]

Therefore the result of a negative correlation between GDP growth and governance should not be interpreted as an indication that good governance is undesirable for growth, and that it should not, be pursued.

On the contrary, the fact that good governance and economic prosperity are correlated, in that the best governed countries tend to enjoy the highest standards of living, can be seen as a sign that well-governed countries do reap benefits in the form of high income per capita, albeit this has occurred over a long period of time. It goes without saying, that this conclusion applies to the EUMS, where the most prosperous member states are the best governed economies.

---

[14] This hypothesis is tested in Briguglio (2015) by regressing changes in real GDP Growth on GDP per Capita and on Changes in the WGI. The coefficient on GDP per capita was negative as expected and statistically significant at the 95% level. The coefficient on changes in WGI was found to be positive and statistically significant.

References

Acemoglu, D., Johnson, D. and Robinson, J.A. (2005). Institutions as a Fundamental Cause of Long-run Growth." In Aghion, P. and Durlauf, S.N. *Handbook of Economic Growth,* Volume IA. Available at : http://economics.mit.edu/files/4469

Anderson, K. M. (2015). *Social policy in the European Union,* London, GB, Palgrave Macmillan. Available at: http://eprints.soton.ac.uk/375244/ .

Aron, J. (2000). "Growth and Institutions: A Review of the Evidence," *The World Bank Research Observer.* Vol. 15 (1), 99-135. Available at: http://www.ppge.ufrgs.br/giacomo/arquivos/eco02237/aron-2000.pdf.

Auel, K. and Christiansen, T. (2015). After Lisbon: National Parliaments in the European Union. Routledge http://www.tandfonline.com/doi/pdf/10.1080/01402382.2014.990693 .

Ayers, A.J. (2008). "We All Know A Democracy When We See One: (Neo) liberal orthodoxy in the 'democratisation' and 'good governance' project.," *Policy and Society,* Vol. 27 (1): 1–13. Available at: http://www.sciencedirect.com/science/article/pii/S1449403508000027 .

Baland, J.M. Moene, K.O. and Robinson, J.A. (2009). "Governance and Development," In Rodrik, D. and Rosenzweig, M. (Eds) *Handbook of Development Economics*. North Holland.

Briguglio, L. (2015). "Explaining the negative relationship between economic growth and governance scores," paper to be presented at the Annual Conference of the Philippine Economic Society, Manila, 10 November 2015.

Briguglio, L. (2014). "A Vulnerability and Resilience Framework for Small States," In Bynoe-Lewis, D. *Building the Resilience of Small States: A Revised Framework*. London Commonwealth Secretariat.

Briguglio, L., Cordina, G., Farrugia, N. and Vella, S. (2009). "Economic Vulnerability and Resilience: Concepts and Measurements," *Oxford Development Studies*, Vol. 37(3): 229-247.

Brown, D.R. (2010). "Institutional Development in Small States: Evidence from the Commonwealth Caribbean." Halduskultuur – Administrative Culture 11 (1), 44-65. Available at: http://www.cpahq.org/cpahq/cpadocs/institutional%20development%20small%20states.pdf

Cass, D. (1965). "Optimum Growth in Aggregative Model of Capital Accumulation," *Review of Economic Studies*, Vol. 32: 233-240.

Commission on Growth and Development (2008). *The Growth Report Strategies for Sustained Growth and Inclusive Development*. Washington, DC: World Bank. Available at: https://openknowledge.worldbank.org/handle/10986/6507 .

Durlauf, S. N., Johnson P. A. and Temple, J. R. W. (2005). "Growth Econometrics", in Durlauf S.N. and Aghion, P. (eds.), *Handbook of Economic Growth*, Elsevier. Available at: http://www.ssc.wisc.edu/econ/archive/wp2004-18.pdf .

European Commission (2001). *European governance - A white paper.* COM(2001) Official Journal C 287 of 12.10.2001 http://europa.eu/legislation_summaries/institutional_affairs/decisionmaking_process/l10109_en.htm .

European Commission (2006). *Governance in the consensus on development*. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV:r13012

European Commission (2015a). *EU Economic Governance*. http://ec.europa.eu/economy_finance/economic_governance/index_en.htm .

European Commission (2015b). *Europe 2020: Inclusive Growth*. Available at: http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/priorities/inclusive-growth/index_en.htm .

European Commission (2015c). *European Social Fund.* Available at: http://ec.europa.eu/esf/home.jsp?langId=en.

Fayissa, B. and Nsiah, C. (2010). "The Impact of Governance on Economic Growth: Further Evidence for Africa." Working Paper Series, Department of Economics and Finance, Tennessee State University. Available at: http://capone.mtsu.edu/berc/working/Governance_WPS_2010_12.pdf .

Flynn, P. (1998)." The Strength and Weakness of the European Social Model," *World Economic Affairs* . Vol.2 (2): 23-27. Available at: http://people.mcgill.ca/files/christopher.ragan/wea5_flynn.pdf .

Gerschenkron, A. (1952). "Economic Backwardness in Historical Perspective," In: Hoselitz, B. (Ed.), *The Progress of Underdeveloped Areas*. Chicago: University of Chicago Press

Giannone , D. (2015). "Suspending Democracy? The Governance of the EU's Political and Economic Crisis as a Process of Neoliberal Restructuring," in Demetriou, K.N. (ed.) *The European Union in Crisis* :101-119. Available at: http://link.springer.com/chapter/10.1007/978-3-319-08774-0_6#page-1 .

Glaeser, E.L., La Porta, R., Lopez-de-Silanes, F. and Shleifer, A, (2004). "Do Institutions Cause Growth?" NBER Working Paper 10568. Available at: http://www.nber.org/papers/w10568.pdf.

Heins, E. and de la Porte, C. (2015). "The Sovereign Debt Crisis, the EU and Welfare State Reform," *Comparative European Politics*, Vol. 13: 1–7. Available at: http://www.palgrave-journals.com/cep/journal/v13/n1/abs/cep201438a.html .

Huntington, S.P. (1968). *Political order in changing societies* . New Haven: Yale University Press.

Kaufman, D. and Kraay, A. (2002). "Growth without Governance." *Economía*, Vol. 3(1): 169–215

Kaufman, D., Kraay, A. and Mastruzzi, M. (2010). "The Worldwide Governance Indicators: Methodology and Analytical Issues," *World Bank Policy Research Working Paper* No. 5430. Available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1682130 .

Khan. M.H. (2007). "Governance, Economic Growth and Development since the 1960s," DESA Working Paper No. 54, ST/ESA/2007/DWP/54. Available at: http://www.un.org/esa/desa/papers/2007/wp54_2007.pdf

Kurts, J.M. and Schrank, A. (2007). "Growth and Governance: Models, Measures, and Mechanisms," *The Journal of Politics*, Vol. 69 (2): 538–554. Available at: http://politicalscience.osu.edu/faculty/mkurtz/papers/growthandgovernance.pdf .

Lehndorf , S. (2015). "Europe's divisive integration – an overview," in *Divisive integration The triumph of failed ideas in Europe — revisited* . Brussels: ETUI. Available at: file:///C:/Documents%20and%20Settings/User/My%20Documents/Downloads/15%20Divise%20integration%20Lehndorff%20EN%20Web%20version.pdf .

Liebert, U., Gattig, A. and Evas, T. (eds) (2013). *Democratising the EU from Below? Citizenship, Civil Society and the Public Sphere.* Ashgate.

Lindgren , K. and Persson, t. (2011). *Participatory Governance in the EU: Enhancing or Endangering Democracy and Efficiency?* by. New York: Palgrave Macmillian. Available at: http://www.palgraveconnect.com/pc/doifinder/10.1057/9780230347793 .

Lindseth , P.L. (2012). "Of the People: Democracy, the Eurozone Crisis, and Lincoln's Threshold Criterion," *Berlin Journal*, No.22, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2056760 .

Mabille, P. (2012). "Draghi buries European Social Model" *La Tribune* Paris, 27 February 2012. Available at: http://www.voxeurop.eu/en/content/article/1555361-draghi-buries-european-social-model .

Monetary Fund (2014). *World Economic Outlook Database*. Available online at http://www.imf.org/external/pubs/ft/weo/2014/02/weodata/index.aspx .

North, D.C. (1990). *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

Olken, B. A. and Pande, R. (2012). "Corruption in Developing Countries," *NBER Working Paper no. 17398*. Available at: http://www.nber.org/papers/w17398 .

Rivera-Batiz, F. (2002). Democracy, Governance, and Economic Growth: Theory and Evidence, *Review of Development Economics.* Vol.6 (2): 225–247. Available at: file:///C:/Documents%20and%20Settings/User/My%20Documents/Downloads/econ_0102_57.pdf .

Rodrik, D. (2008) "Thinking About Governance," in *Governance, Growth, and Development* Decision-Making, reflections by D. North, D. Acemoglu, F. Fukuyama, and D. Rodrik, Washington DC: The World Bank.

Rubery, J., Bosch, G. and Lehndorff , S. (2008). " Surviving the EU? The Future for National Employment Models in Europe," *Industrial Relations Journal*, Vol. 39 (6): 488–509 Available at: http://www.igmetall-kurswechselkongress.de/wp-content/uploads/2012/11/irj_502.pdf .

Sapir, A. (2005). *Globalisation and the reform of European Social models*. Bruegel, Belgium: Available at: http://www.bruegel.org/publications/publication-detail/publication/31-globalisation-and-the-reform-of-european-social-models/ .

Sapir, A. and Wolff, G. (2015) *Euro-area governance: what to reform and how to do it*. Bruegel Policy Brief 2015/01 Available at: file:///C:/Documents%20and%20Settings/User/My%20Documents/Downloads/Euro-area%20governance-%20what%20to%20reform%20and%20how%20to%20do%20it%20(English).pdf

Schmidt, V. A. (2013). "Democracy and Legitimacy in the European Union Revisited: Input, Output and 'Throughput'," *Political Studies*, Vol. 61: 2-22. Available at: http://onlinelibrary.wiley.com/doi/10.1111/j.1467-9248.2012.00962.x/pdf.

Solow, R.M. (1956). "A Contribution to the Theory of Economic Growth," *The Quarterly Journal of Economics*, Vol. 70(1): 65-94.

Sundaram, J. K and Chowdhury, A. (2012). *Is Good Governance Good for Development?* Bloomsbury Academic (United Nations Series on Development).

Svensson, J. (2005). “Eight questions about Corruption,” *Journal of Economic Perspectives*, Vol.19 (5): 19-42. Available at: http://pubs.aeaweb.org/doi/pdfplus/10.1257/089533005774357860 .

UNDP (2014). *Human Development Reports*. Available online at: http://hdr.undp.org/en/data

Vaughan-Whitehead, D. (Ed.)(2014) Is the European social Model Losing its Soul? International Labour Organisation. Available at: http://www.ilo.org/global/publications/ilo-bookstore/order-online/books/WCMS_314465/lang--en/index.htm .

World Bank (2014). *Worldwide Governance Indicators*. Available on line at: http://info.worldbank.org/governance/wgi/index.aspx#home